HUSKY 1971
ANNUAL REPORT

HUSKY

1971 Annual Report

GENERAL OFFICE
815 Sixth Street S.W.
Calgary 2, Alberta, Canada

UNITED STATES OFFICES
Post Office Box 380
Cody, Wyoming 82414

4040 East Louisiana Avenue
Denver, Colorado 80222

REFINERIES
Cheyenne, Wyoming
Cody, Wyoming
Lloydminster, Alberta
Salt Lake City, Utah

DIVISION MARKETING OFFICES
Southern Region
Denver, Colorado
Billings, Montana
Salt Lake City, Utah

Northern Region
Calgary, Alberta
Thunder Bay, Ontario
Spokane, Washington

HUSKY INDUSTRIES, INC.
Post Office Box 380
Cody, Wyoming 82414

Sales Offices
Minneapolis, Minnesota
Ocala, Florida
Scotia, New York

Plant Locations
Bradford, Pennsylvania
Dickinson, North Dakota
Huntsville, Ontario
Isanti, Minnesota
Jacksonville, Florida
Ocala, Florida
Romeo, Florida
Stamford, New York
Waupaca, Wisconsin

GATE CITY STEEL CORPORATION
P.O. Box 14022
Omaha, Nebraska 68114

District Offices
Albuquerque, New Mexico
Bettendorf, Iowa
Boise, Idaho
Chicago, Illinois
Davenport, Iowa
Denver, Colorado
Idaho Falls, Idaho
Omaha, Nebraska
Pocatello, Idaho
Salt Lake City, Utah
Sterling, Illinois

TRANSFER AGENTS AND REGISTRARS
Common Shares –
Montreal Trust Company
Offices at Calgary, Halifax, Montreal, Regina, Saint John, Toronto, Vancouver and Winnipeg

The Chase Manhattan Bank
New York City

Preferred Shares –
Montreal Trust Company
At above offices

AUDITORS
Peat, Marwick, Mitchell & Co.
Calgary, Alberta

Front cover
Husky's striking new Lloydminster Area office building shines across the night. Husky is the prime developer of the vast Lloydminster crude oil production area located on the Alberta-Saskatchewan boundary. The Lloydminster area fields, with hundreds of wells, are recognized as leading producers of black oil.

Back cover
The vibrant hues of autumn foliage form a colorful frame for the towering drilling rig at the site of a deep exploration well in the rugged terrain of northwestern Colorado.

Highlights of Operations

FINANCIAL	1971	1970 (Restated)
Gross operating revenues	$184,185,000	$176,226,000
Cash flow from operations	29,282,000	23,288,000
Net earnings:		
From operations	10,915,000	6,974,000
Special charge	—	(1,711,000)
Total	10,915,000	5,263,000
Per common share:		
Cash flow from operations	$3.04	$2.40
Net earnings		
From operations	$1.09	$0.67
Special charge	—	(0.18)
Total	$1.09	$0.49
Growth expenditures	34,656,000	47,209,000
Working capital at end of year	15,999,000	16,750,000
Long term debt and deferred credits at end of year	116,017,000	111,868,000

OPERATIONS	1971	1970
Crude oil and equivalent gas production (barrels daily)	42,874	36,971
Refinery runs (barrels daily)	50,185	50,044
Refined product sales (barrels daily)	53,285	56,961
Number of sales outlets	1,540	1,631

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ANNUAL MEETING

The Annual General Meeting of Shareholders of Husky Oil Ltd. will be held in the Palliser Hotel in Calgary, Alberta, at 3:00 p.m. on April 28, 1972. Formal notice of this meeting and proxy material are enclosed.

To the Shareholders

Glenn E. Nielson
Chairman of the Board

Gene E. Roark
President & Chief Executive Officer

By all measures Husky established historical records in operating performance during 1971. Earnings from operations increased to $10,915,000, equivalent to $1.09 per share, compared to $6,974,000 or 67 cents per share in 1970. This represents an increase in earnings of 63 per cent on a per share basis. This comparison is before taking into account an extraordinary loss of $1,711,000, or 18 cents per share, incurred in 1970, on the disposal of offshore drilling assets.

Cash flow from operations increased 26 per cent to $29.3-million, equal to $3.04 per share, compared to $23.3-million, or $2.40 per share in 1970.

Sales and operating revenues totaled $184-million for a gain of five per cent over 1970.

As reported in the February 25, 1972, letter to the shareholders, Husky entered into financial transactions during 1971 and the early part of 1972, which have favorably affected the financial posture of the company. Included in the report of these transactions is the $25,771,000 sale by Husky of its 55 per cent ownership in Empire State Oil Company.

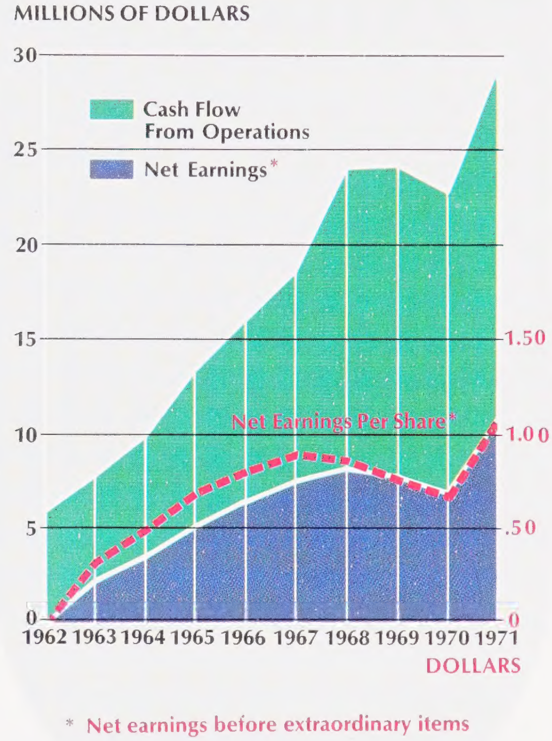
Husky's equity in the earnings of Empire State for 1971 amounted to $1,494,000. While these earnings will not be available in 1972, they should be more than offset by interest savings derived from the application of the proceeds from the sale to debt repayment. Based on Husky's average interest rate of about seven per cent at year end, the annual interest saving will approximate $1,800,000.

The Empire sale and the other transactions detailed in this report have resulted in the retirement of virtually all of the company's bank debt and over 70 per cent of its long term debt now has very long maturities.

Conforming to accounting principles for discontinued operations, the 1971 earnings statement and the 1970 comparisons have been restated to reflect a deconsolidation of Empire. Although net profit remains unchanged, it should be noted that sales, cost of sales, cash flow and production volumes have been restated to exclude Empire State.

Husky's oil and equivalent gas production reached a new record of 42,874 barrels per day in 1971, an increase of 16 per cent over 1970.

FINANCIAL SUMMARY



Production from the Lloydminster and Wainwright areas of Alberta and Saskatchewan continue to increase, averaging 20,100 barrels per day in 1971, compared to 16,950 barrels per day in 1970.

Results of in situ combustion techniques in the Lloydminster fireflood project are encouraging, and although the process is still experimental, there was a significant expansion of the project in one area of the Aberfeldy Unit.

The company enlarged the scope of its exploration activities during 1971. As recently announced, Husky is a 10 per cent participant in the Sea Search Group, which was awarded four blocks in the United Kingdom sector of the North Sea. Through this group, negotiations have resulted in Husky acquiring the rights to a five per cent interest in three additional blocks. The management and technical staff of the company are of the opinion that these moves have placed Husky in a significant position in this major exploration play.

This year will see the completion of a major reworking of the Cheyenne, Wyoming, refinery. The $10-million project will permit the plant to operate at a capacity in excess of 20,000 barrels per day while enabling it to produce high octane, lead-free gasolines. When this work is completed, the refinery will more than comply with all federal and state pollution control requirements.

With an expenditure of less than $1-million the Cody, Wyoming, refinery can also produce high quality non-leaded gasolines, and meet all required pollution control standards.

Refining and marketing performed well during the year, showing a modest increase in profits in the face of increasing costs of operations. The company continues to expand its Travelcenter program along the major highways in the United States and Canada.

Profits in Gate City Steel in 1971 were up slightly over 1970. The Nolder Steel Company of Chicago, acquired early in the year, has been consolidated as an operating division of Gate City.

Husky Industries, which is the new name for Husky Briquetting, continues to expand its regional operations and volumes. It is also aggressively enlarging its activated carbon activities. This subsidiary enjoyed an improvement in profitability over 1970.

During the year, James E. Nielson, who has been responsible for the Husky drilling fund, was elected to the board of directors and appointed an executive vice president in charge of exploration and production. He is a 14-year employee of the company and has been a vice president since 1967.

Again, we pay tribute to the employees who have provided the support necessary to the board and management of your company to achieve the results reflected in this report.

Glenn E. Nielson

Glenn E. Nielson
Chairman of the Board

Gene E. Roark

Gene E. Roark
President

Calgary, Alberta,
March, 1972.

Review of Operations

Exploration

During 1971, Husky broadened the scope of its operations with significant entries into international exploration and the Gulf of Mexico offshore region.

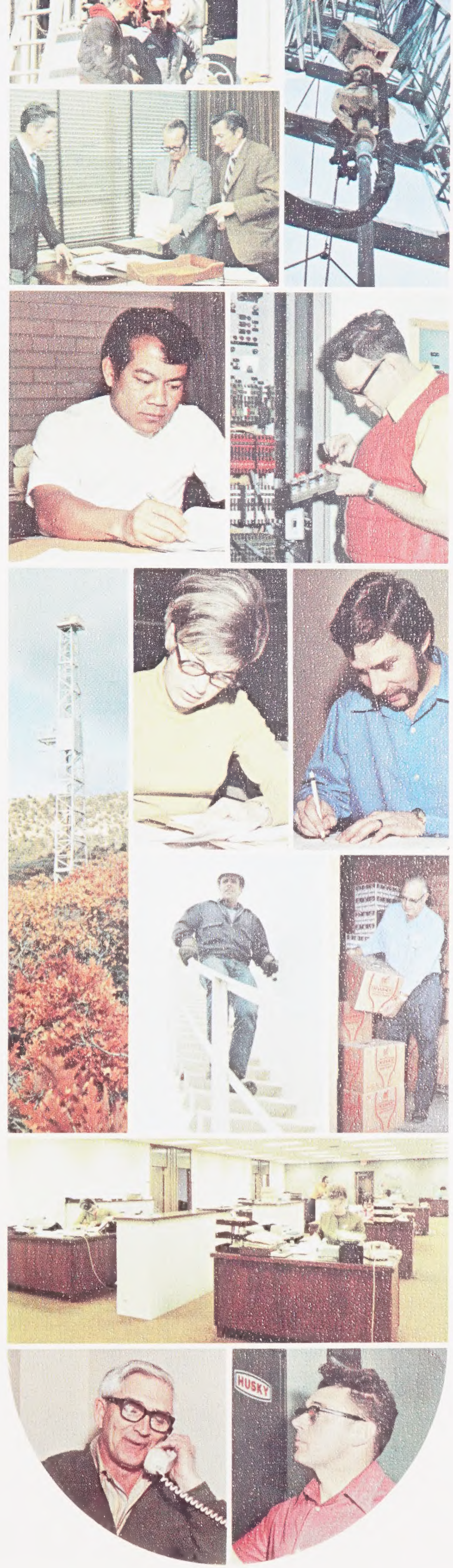
In the United Kingdom sector of the North Sea, Husky is a 10 per cent participant in the Sea Search Group which was awarded an oil and gas production license consisting of four blocks. The Group also negotiated an arrangement with Chieftain Development Co. Ltd., covering three additional blocks. As a result of its participation with the Sea Search Group, Husky has a 10 per cent direct interest in 220,000 acres and through the Chieftain deal, a five per cent direct interest in 200,000 acres. It has been announced that drilling of the first test well will commence during the summer of 1973. The North Sea holds the promise of becomming a major new oil producing region of the world.

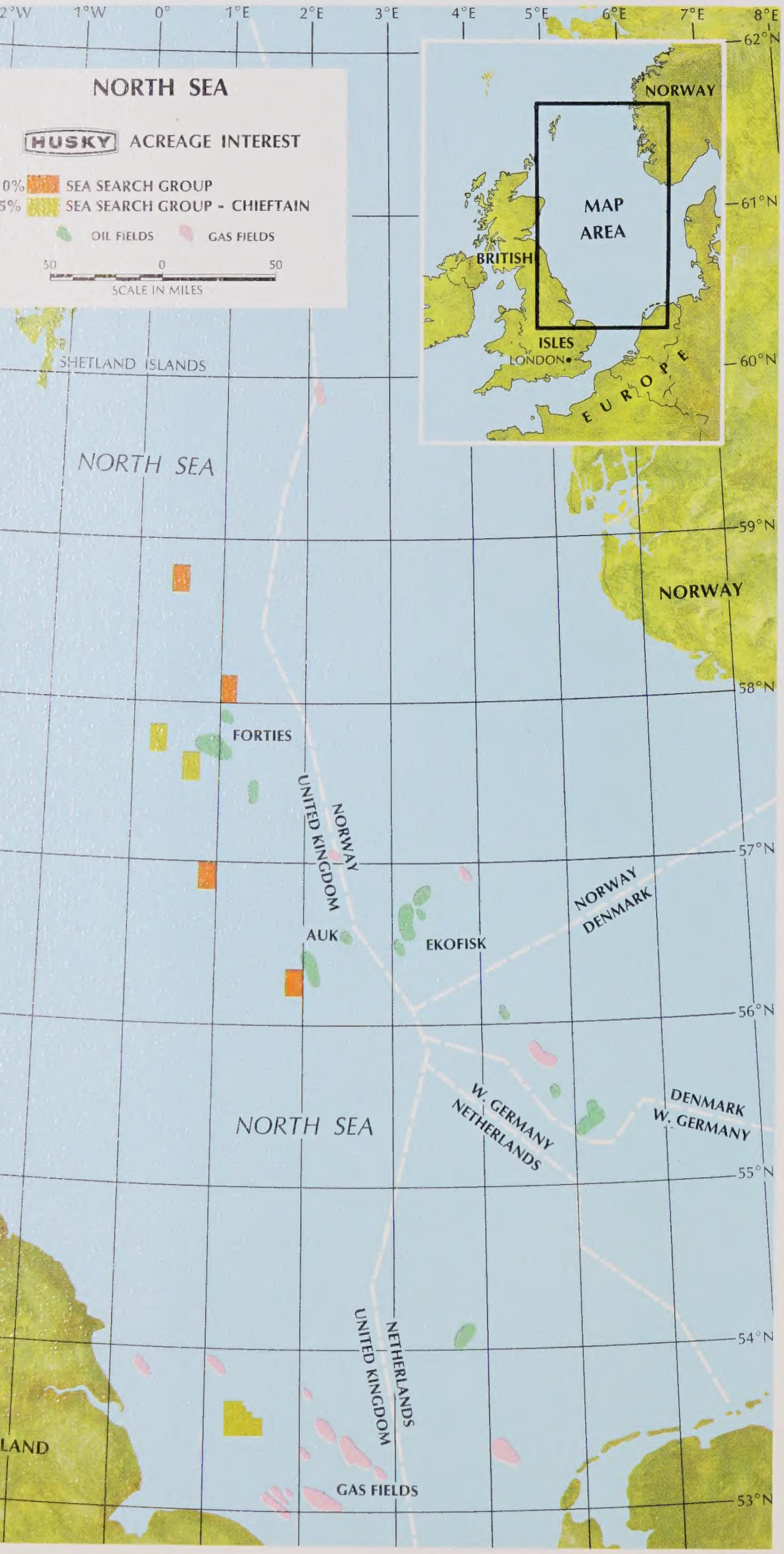
Other foreign ventures include Madagascar and Guyana where the company has varying interests in offshore concessions. In both cases extensive marine seismic programs were completed during 1971 and results are being interpreted.

In the Gulf of Mexico, Husky is a 15 per cent participant with a group conducting extensive marine seismic and subsurface geological programs designed to evaluate the potential of offshore Texas, Mississippi, Alabama and Florida. This is a long range program designed to evaluate acreage to be posted for forthcoming state and federal lease sales.

In Canada's frontier regions the company is represented in several active areas. In the Kandik Basin of the northern Yukon, geological and geophysical surveys were completed on a block of 2.5-million acres in which Husky has a 25 per cent interest. Two wells have been unsuccessfully drilled on this acreage; however, because of the number of structures present, further exploratory drilling is planned.

In the Fort Norman area of the Mackenzie River valley the company has varying interests and op-





tions on a block of 500,000 acres. Exploratory drilling is presently being conducted in this area.

Husky has a 3.26 per cent net interest in several blocks totaling four-million acres in the Arctic Islands. The recent Panarctic Kristoffer Bay gas discovery well is located six miles to the southwest of a 460,764-acre block in Ellef Ringnes Island in which the company also has a 3.26 per cent net interest. A farmout well is currently being drilled on this block and an additional well offsetting the block to the north will be drilled in 1972.

Encouraging results of marine seismic surveys off Cape Breton Island in eastern Canada led to the exercising of the option to acquire additional acreage. The company now owns a full 25 per cent interest in a block of 2.1-million acres. Revised planning for this project calls for additional seismic work during 1972 rather than drilling as previously reported. The Cape Breton block is located 90 miles to the north of the recently announced Sable Island oil and gas discovery.

The 1971 Lloydminster exploration program involved a total of 39 wells, including 10 deep tests, resulting in eight completed oil wells and three gas wells. An additional 27 stratigraphic tests were drilled with eight indicating potential exploration areas.

Although it is the intent of the company to conduct its exploration program in conjunction with its drilling fund, certain complications have made it impossible to do this in all cases. Husky, outside of the fund, participated in a total of nine exploratory wells, eight in Canada and one in the United States. This program resulted in three gas wells in which Husky has varying interests, one in the Pouce Coupe area of northwestern Alberta, one in the Oyen area of southeastern Alberta, and one in New Mexico.

Hearings in a law suit against the U.S. government instituted by Husky and its partners in relation to our Santa Barbara Channel leases have been concluded and it is expected that a decision will be handed down in 1972.

DRILLING FUND

Husky's 1971 exploration program was augmented by Husky drilling fund activity. During the year the fund participated in a total of 24 exploratory wells, 20 in Canada, three in the United States and one offshore Liberia, Africa.

The 1971 fund program involved 16 new prospects. A deep test at East Strachan in Alberta which was slated to be drilled during 1971 was delayed and operations commenced in January of 1972. The Moberly deep test which was suspended at a depth of 8,300 feet in July, 1971, resumed drilling in March of 1972. Two prospects, Dunvegan, Alberta, and Fox Valley, Saskatchewan, which were drilled by the fund during 1971 are slated for additional exploration in 1972.

While fund activities to date have not produced significant exploration results, substantial land positions have been acquired. Expenditures during 1972 will be more heavily weighted to exploratory drilling, increasing the possibility of discovery exposure. More drilling will be done in the United States than in previous years.

Payments in 1971 by limited partners into the drilling fund totaled about $9-million, while Husky spent $7-million on behalf of its limited partners. Three-million dollars are available from collections in 1970 and 1971 to be spent in 1972.

MINERAL ACTIVITIES

Evaluation of Husky's hard rock mineral holdings continued throughout 1971. Encouraging results from preliminary work on the north Saskatchewan properties has resulted in an extensive core drilling program now in progress.

Husky has a 20 per cent participation in four-million acres in the Australian Northern Territories and a 25 per cent interest in 1.8-million acres in New South Wales, Australia. Encouragement from surface work conducted in the Tennant Creek area of the Northern Territories has resulted in an evaluation core drilling program slated to commence in the near future.

The company has withdrawn from active participation in the Del Norte mining group in British Columbia and has reduced its position to a net profit interest in the existing properties.

EXPLORATION PLAYS IN WHICH HUSKY HAS AN ACTIVE INTEREST
AREAS ARE NOT SHOWN TO SCALE
Oil and Gas Properties
Mining Claims and Permits
Arctic Ocean
ARCTIC ISLANDS
"First Rights"
Beaufort Sea
GREENLAND
NORTH SLOPE "First Rights"
ALASKA
KANDIK
FT. NORMAN
YUKON TERRITORY
NORTHWEST TERRITORIES
SIBBESTON LK.
PATRY LAKE
BRITISH COLUMBIA
Hudson Bay
SIKANNI
ALBERTA
SASK.
NEWFOUNDLAND
KISKATINAW R.
DUNVEGAN
QUEBEC
GOLD CREEK
CUTBANK RIVER
MANITOBA
BERLAND R.
VIRGINIA HILLS - MEEKWAP
MOBERLY
CAPE BRETON
STRACHAN N.
LLOYDMINSTER
BURNSTICK
DONALDA
JAMES R.
ALSASK
QUIRK CR.
FOX VALLEY
ONTARIO
NOVA SCOTIA
MEDICINE HAT N.
S.E. SASKATCHEWAN
THREE RIVERS
MONTANA
POWDER R. BASIN
HILIGHT
WYOMING
GREEN R. BASIN
D-J BASIN
ATLANTIC OCEAN
COLORADO
BENT'S FORT
NEW MEXICO
PACIFIC
OCEAN
SMACKOVER TREND
TEXAS
LOUISIANA
EAGLE
INDIAN POINT
FLORIDA
SPARTAN
15% Gulf of Mexico Seismic Program
MEXICO
GULF OF MEXICO

EXPLORATORY ACREAGE HOLDINGS AND RIGHTS
ON DECEMBER 31, 1971

OIL AND GAS PROPERTIES

	(thousands of net acres)
CANADA	
Alberta	1,013
British Columbia	62
Nova Scotia	532
Saskatchewan	1,175
Arctic Islands	522
N.W.T. and Yukon	1,337
Quebec	171
Total Canada	4,812
UNITED STATES	
Alaska (1)	231
Rocky Mountain Areas	520
Southwestern States	9
Other Areas	22
Total U.S.A.	782
FOREIGN	
North Sea	2
Fiji	640
Madagascar	855
Guyana	118
Liberia	43
Total Foreign	1,658

(1) 231,000 net acres are subject to issuance as leases.

MINING CLAIMS AND PERMITS

	(thousands of net acres)
CANADA	
British Columbia	14
Saskatchewan	49
N.W.T. and Yukon	245
Total Canada	308
AUSTRALIA	
Northern Territory	776
New South Wales	463
Total Australia	1,239

Production

During 1971, Husky was again one of the leading companies in Canada in drilling activity, participating in a total of 211 gross wells. In addition, 39 wells were drilled in the United States. Of 91 development wells drilled in the Lloydminster area of Alberta and Saskatchewan, 85 were completed as producers.

On the reporting basis used, which excludes Empire State's 9,126 barrels per day, Husky's oil and equivalent gas production reached 42,874 barrels per day in 1971. This represents an increase of 6,000 barrels per day from 1970, or a gain of 16 per cent.

Husky's production from the Lloydminster and Wainwright areas of Alberta and Saskatchewan continued to increase, averaging 20,100 barrels per day in 1971, compared with 16,950 barrels per day in 1970, up 18 per cent.

The results of sophisticated in situ combustion techniques in the Aberfeldy fireflood project are

NET OIL AND EQUIVALENT NATURAL GAS PRODUCTION

	(thousands of barrels)	
	1971	**1970**
CANADA		
Alberta	3,622	3,165
Saskatchewan	1,091	1,057
Lloydminster	6,254	5,074
Total Canada	10,967	9,296
UNITED STATES		
Colorado	279	299
Montana	158	94
New Mexico	734	847
Texas	387	406
Wyoming	2,797	2,192
Other Areas	327	361
Total U.S.A.	4,682	4,199
Total	15,649	13,495

encouraging. Although the process is still considered experimental, an expansion of the project was effected in 1971 by the drilling of 22 oil wells and four air injection wells.

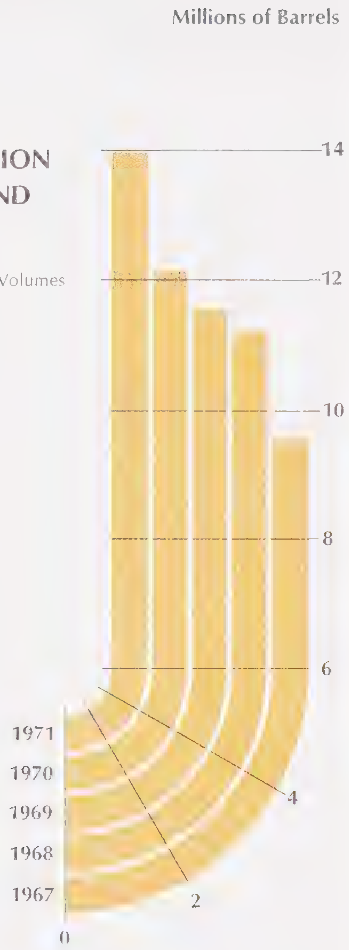
In-fill drilling in one of the Lloydminster waterflood areas resulted in increased rates of production with high rates of return. As a result, additional in-fill wells are planned to test and exploit these results during 1972. The in-fill program will place wells on a 20-acre spacing as compared with the present 40-acre pattern.

The company continues to make progress in improving production techniques being applied to the heavy viscous oil in the Lloydminster area. New methods of pumping and treating have improved the rate of production and economics of the wells in this area.

NET PRODUCTION CRUDE OIL AND GAS LIQUIDS*

* Excludes Empire State Volumes

	Barrels
1971	13,996,000
1970	12,142,000
1969	11,557,000
1968	11,221,000
1967	9,562,000



NET OIL AND GAS PRODUCTION

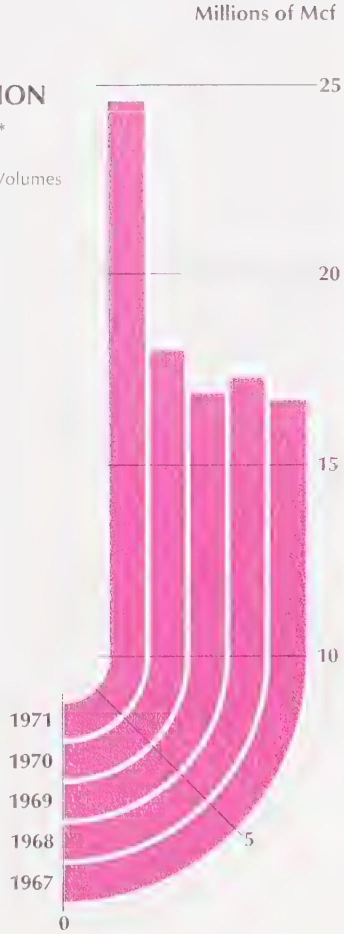
	Oil and Gas Liquids (thousands of barrels)		*Natural Gas (millions of cubic feet)*	
	1971	**1970**	**1971**	**1970**
CANADA				
Alberta	2,572	2,354	14,696	10,132
Saskatchewan .	1,019	980	1,012	970
Lloydminster .	6,194	5,042	840	399
Total Canada	9,785	8,376	16,548	11,501
UNITED STATES				
Colorado	276	293	51	90
Montana	158	92	2	26
New Mexico ..	477	555	4,377	4,380
Texas	323	329	1,075	1,155
Wyoming	2,658	2,160	2,357	476
Other Areas ..	319	337	144	364
Total U.S.A. .	4,211	3,766	8,006	6,491
Total*	13,996	12,142	24,554	17,992

*Excludes 3.2 million barrels of oil (1970 – 2.6 million barrels) and 1.4 billion cubic feet of gas (1970 – 1.1 billion cubic feet) produced by Empire State Oil Company.

NET PRODUCTION NATURAL GAS*

* Excludes Empire State Volumes

	Thousands of cubic feet
1971	24,554,000
1970	17,992,000
1969	16,876,000
1968	17,364,000
1967	16,727,000



The Wyoming Conservation Commission ordered the unitization and initiation of secondary recovery in the Hilight field. As a result of this order the application of waterflooding in the Muddy Sandstone reservoir will be accelerated. Pilot waterflooding conducted in this field has been encouraging. Two units were effective at year end with a third unit still pending. Husky has interests in all of these units.

The company participated in the successful deepening of a previously abandoned well in the Oregon Basin unit in Wyoming. This well and one drilled by Husky in late 1970 will result in an enlargement during 1972 of the Oregon Basin unit participating area and will increase Husky's percentage interest in this unit.

SUMMARY OF WELLS DRILLED IN 1971

	Gross Wells			
	Oil	*Gas*	*Dry*	*Total*
Exploratory Drilling . . .	8	6	58	72
Development Drilling .	152	12	14	178
Total Drilling	160	18	72	250

	Net Wells			
	Oil	*Gas*	*Dry*	*Total*
Exploratory Drilling . . .	7.5	3.7	33.1	44.3
Development Drilling .	87.3	4.9	11.9	104.1
Total Drilling	94.8	8.6	45.0	148.4

Refining and Marketing

One of the company's most significant projects will be completed during 1972. This is the $10-million modernization of Husky's Cheyenne, Wyoming, refinery, started in 1971, which is progressing on schedule.

When the work is completed, Cheyenne's capacity will exceed 20,000 barrels per day and the refinery will meet all state and federal air and water quality standards and product requirements. It will be one of the first refineries in the inter-mountain area to produce high octane, low-lead and no-lead gasolines and at the same time, comply with the new and costly pollution control regulations.

New alkylation and butamer units will be on stream in the spring and a gasoline unifiner-platformer during the fall. A new cooling tower, tankage, sulphur recovery facilities, smokeless flare and collection equipment for spent chemicals are among the equipment being added.

The Cheyenne project is by far the most costly refinery modification that will face the company. Studies indicate that the refinery at Cody, Wyoming, can be modified to produce high quality low-lead and no-lead gasolines while exceeding anti-pollution requirements for an expenditure of less than $1-million.

In spite of the constructtion program at Cheyenne, reduced marketing volumes, and rising costs of crude oil, labor and supplies, refining and marketing personnel managed a modest increase in profits over 1970. Improved class of trade, increased posted prices for light oils in Canada, and improved prices on asphalts contributed to the profit increase.

Refinery throughput in 1971 was 50,185 barrels per day, a slight increase over 1970.

The expansion of Husky's Travelcenter chain continued with the opening of units at Casper, Wyoming, and Troutdale, Oregon, a suburb of Portland. The Travelcenters are large volume stations, with restaurant facilities, located on United States and Canadian arterial highways. New Travelcenters will be opened in 1972 at Glendive, Montana, and La Grande, Oregon. Construction will soon start on new units at Sault Ste. Marie, Ontario; Prince Albert, Saskatchewan; Albuquerque, New Mexico, and Limon, Colorado.

Construction at Cheyenne refinery.

During 1971, the light oil divisions were reorganized and offices consolidated, resulting in decreased costs and increased operating efficiency.

Husky's Canadian asphalt manufacturing was consolidated in 1971. The Moose Jaw, Saskatchewan, refinery was closed in October and the Lloydminster, Alberta, refinery converted to an asphalt refinery.

The company has an arrangement with Gulf Oil to process its crude oil and to furnish it with light oil products at most of Husky's Canadian terminals. Husky also has an arrangement by which it furnishes asphalt products to Gulf at Lloydminster and Gulf supplies Husky asphalt products at Moose Jaw and Calgary.

New service station design.

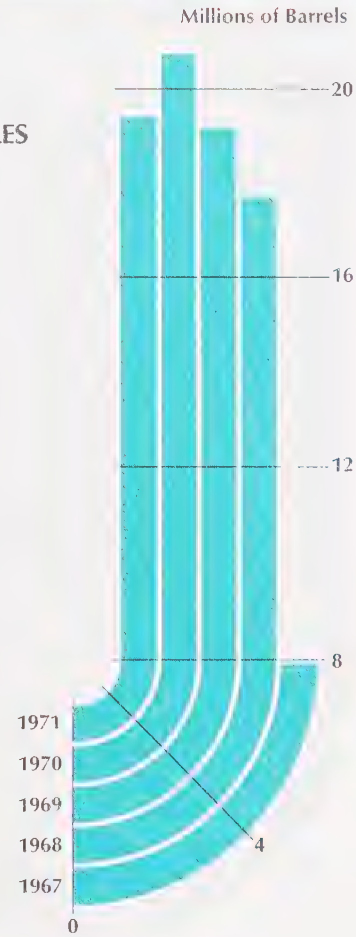
REFINERY RUNS

Refinery:	1971 (thousands of barrels)	1970 (thousands of barrels)
Cheyenne, Wyoming	6,793	6,503
Cody, Wyoming	4,163	4,126
Lloydminster, Alberta . . .	2,416	2,578
Moose Jaw, Saskatchewan*	1,050	1,212
Salt Lake City, Utah	3,896	3,847
	18,318	18,266

*Operations closed October, 1971.

REFINED PRODUCT SALES

	Barrels
1971	19,449,000
1970	20,791,000
1969	19,246,000
1968	17,762,000
1967	7,939,000



Typical Gate City facilities.

GATE CITY STEEL

Gate City Steel, in which Husky has an 88 per cent interest, improved and expanded its steel servicenter business. It completed major expansions in its steel sheet processing and distribution capabilities in 1971.

New sheet warehouses were constructed at the Omaha, Nebraska, and Davenport, Iowa, plants. In January, Gate City greatly expanded its sheet processing capabilities with the purchase of Nolder Steel Company in Chicago, now operated as a division. A 48-inch decoil and blanking system added in late 1971 further expanded the capabilities of the Nolder plant. This system will facilitate the delivery to industrial customers of production-ready sheets.

The company improved profit to $1.7-million in 1971 from $1.6-million in 1970. This was accomplished despite a sales volume reduction of $2.5-million. The reduced sales in 1971 were a result of Gate City closing out the last of its heavy fabrication operations.

In addition, with improved steel servicenter facilities and added emphasis on this line of business, prospects for more profitable operations appear to be improved for 1972.

Subsidiary Operations

HUSKY INDUSTRIES

Husky's wholly-owned subsidiary, Husky Briquetting, is now known as Husky Industries, Inc., in the United States and as Husky Carbon Industries in Canada. The new name better portrays its broadened lines of consumer and industrial products.

Sales in 1971 were up 54 per cent from 1970, and cash operating income more than tripled. Profits of this subsidiary continued to improve.

Husky Industries in 1971 expanded into the production of industrial and activated carbon products. As an example of this new area of activity, Husky Industries has a contract to furnish activiated carbon for the world's largest municipal water treatment plant in Chicago. Other major cities are using Husky's activated carbon for water treatment purposes.

In keeping with the anticipated growth in the use of this product in pollution control systems, Husky Industries plans to expand its activated carbon research and operations.

Broader market penetration by Husky Industries' consumer products came with the national market introduction of Smokey Bear briquets and instant-lighting Brix. The U.S. Department of Agriculture has licensed the use of its Smokey Bear symbol on Husky packaging and in promotion efforts for premium briquets, Brix, fireplace logs, lighter fluids, grill liner, hickory chips and other allied items. The company also markets Grill Time and other briquet brands in all provinces of Canada and all states of the U.S. In addition, it packs private label brands for several leading food chains.

New facilities of Husky Industries.

Financial

Net earnings, sales and operating revenues and cash flow set new records for Husky in 1971. Net earnings from operations increased to $11-million from $7-million in 1970. Earnings per share from operations were $1.09, an increase of 63 per cent from the 67 cents earned in 1970 and represent a historical high for the company. Cash flow from operations in 1971 was $29.3-million, or $3.04 per share compared to $2.40 per share in 1970, up 27 per cent. Sales revenues increased to $184-million, an improvement of five per cent over 1970. Net profit comparisons do not take into account the extraordinary loss of $1.7-million on disposal of offshore drilling equipment in 1970.

Higher crude prices and increased volumes contributed significantly to record profits. Lower interest rates were also a factor. These, coupled with improvement in all facets of Husky's operations, made the 1971 total profit the highest in the company's history.

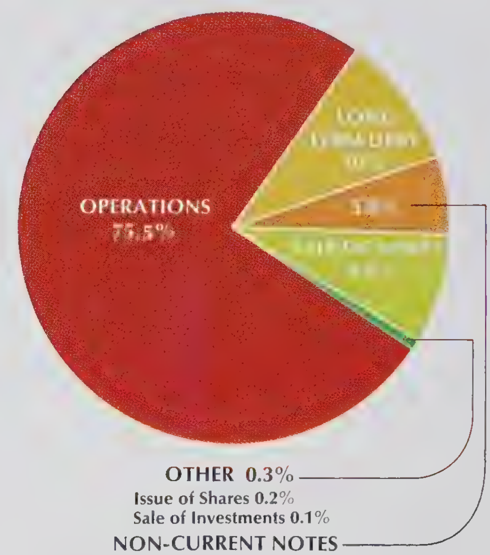
For the last three quarters of 1970 and the first three quarters of 1971, Husky fully consolidated the accounts of Empire State Oil Company. Husky disposed of its interest in Empire on January 3, 1972, for $25,771,000.

In accordance with accounting principles for discontinued operations, the 1971 earnings statement presented in this report and the 1970 comparisons have been restated to reflect a deconsolidation of Empire to include only Husky's equity interest in Empire's profit during the last two years. Although net profit remains unchanged as a result of this deconsolidation, it should be noted that sales, cost of sales, cash flow and production volumes have been restated to exclude the Empire volumes.

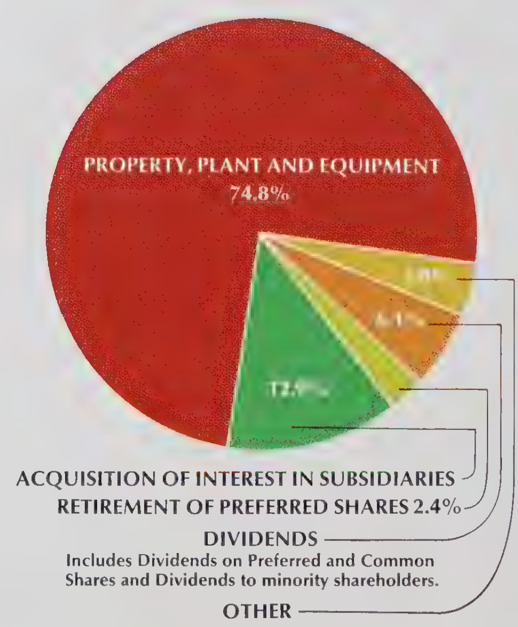
Husky's equity in the earnings of Empire State for 1971 amounted to $1,494,000. While these earnings will not be available in 1972, they should be more than offset by interest savings derived from the application of the proceeds from the sale to bank indebtedness. Based on Husky's average interest rate of about seven per cent at year end, the annual interest saving approximates $1,800,000.

Husky's original cost in the Empire shares amounted to $16.7-million. Of the excess sale price of $9-million, $3-million will be recorded as

SOURCE OF FUNDS - 1971



USE OF FUNDS - 1971



a special credit in 1972 and the balance will reduce the future cost of depletion of oil and gas properties.

In addition to the sale of the Empire shares, debenture issues in Canada in 1971 and in the U.S. in 1972, both more fully described below, have substantially improved the financial condition of the company:

- In 1971 Husky publicly issued in Canada \$15-million of 20-year 8½ per cent sinking fund debentures with a total of 300,000 purchase warrants attached. The warrants are exchangeable for an equivalent number of Husky common shares at a price of \$18 per share for five years and at \$21 for an additional five years. Sinking fund requirements are \$225,000 per year for five years, \$450,000 for five years, and \$675,000 per year thereafter to maturity.
- In early 1972 Husky Oil Company, our U.S. subsidiary, issued \$25-million principal amount of 25-year convertible debentures at an interest rate of 6¼ per cent. This debenture is subordinate to all present or future indebtedness of Husky Oil Company. The debentures are convertible into common shares of Husky Oil Ltd. at a price of \$20 per share. There is no sinking fund on this issue for 10 years and thereafter a sinking fund of \$1,250,000 per year until maturity. The company has the right to call the issue in whole or in part at any time.

The approximate \$65-million received in the aggregate from the sale of the Empire shares and the two financing transactions has been applied, almost entirely, to the reduction of bank indebtedness to nominal levels. Husky's long term debt has been reduced to approximately \$114-million of which \$79-million, or 70 per cent, has very long term maturities. Annual sinking fund requirements on this \$79-million in the next five years are approximately two per cent per year, and the weighted interest rate is 6.8 per cent. This is less than Husky's composite cost of money.

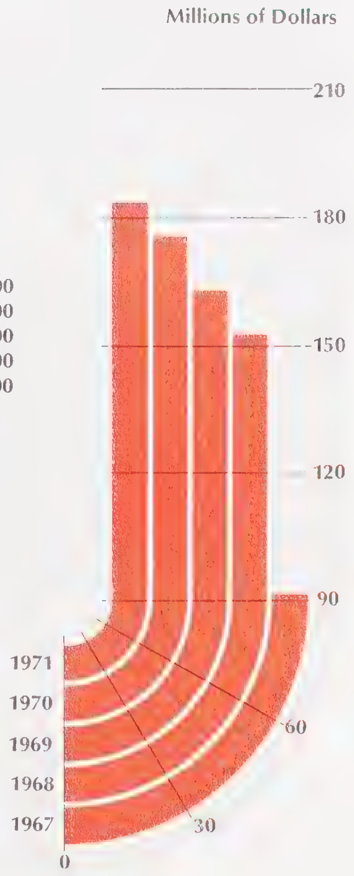
Because of the significant change in Husky's financial position and debt structure occurring as a result of the sale of Empire State shares and the issue of the convertible debentures in January, 1972, pro forma information reflecting the

GROWTH EXPENDITURES

1971	\$34,656,000
1970	47,209,000
1969	39,535,000
1968	36,103,000
1967	39,811,000

GROSS OPERATING REVENUES

1971	\$184,185,000
1970	176,226,000
1969	163,493,000
1968	153,663,000
1967	90,197,000



changes to the applicable balance sheet accounts on December 31, 1971, is set out below:

	(thousands of dollars) December 31, 1971 Actual	Pro Forma
Marketable securities	$ 49	$ 5,049
Non-current assets	36,824	14,574
Notes payable to banks	16,277	2,777
Current portion of long term debt	12,641	8,316
Long term debt	116,017	114,076
Capital and surplus	136,969	140,161

The $5-million added to marketable securities (short term investments) has been utilized for general corporate purposes in the first quarter of 1972.

GROWTH EXPENDITURES

	(thousands of dollars) 1971	1970 (Restated)
Exploration	$ 7,474	$ 7,869
Development and acquisition of producing properties and pipeline facilities	10,536	20,078
Refining and marketing	5,225	8,403
Manufacturing and other	6,337	3,822
Investments and other acquisitions	5,084	7,037
	$34,656	$47,209

Growth expenditures for 1971 were approximately $35-million, compared to $47-million in 1970. Exploration and development expenditures aggregated $18-million in 1971. Of this total, $7-million related to continued activities, largely of a developmental nature at Lloydminster, and $11-million applied to other areas.

The total growth expenditure program exceeded our cash flow for the year by about $5-million. In light of the record levels of Husky's net earnings and cash flow and favorable restructuring of the debt position, it is expected that cash flow in 1972 will be adequate to cover debt service and dividend requirements and to carry presently foreseeable growth expenditures without any increase in debt.

Consolidated Statement of Earnings

For the Year Ended December 31, 1971

	1971	1970 (Restated)
Income		
Sales and operating revenues	$184,185,000	$176,226,000
Equity in earnings of Empire State Oil Company (Note 1)	1,494,000	758,000
	185,679,000	176,984,000
Deductions		
Cost of sales and operating expenses	130,746,000	128,821,000
Selling, general and administrative expenses	15,937,000	14,949,000
Interest (net of interest income of $805,000 in 1971 and $688,000 in 1970) (Note 5)	9,887,000	9,261,000
Miscellaneous - net	(663,000)	702,000
Provision for U.S. income taxes (Note 8)	72,000	143,000
Depreciation and amortization	9,845,000	9,147,000
Depletion (Notes 3 and 4)	8,394,000	6,343,000
Minority interest in earnings of subsidiaries:		
Preferred share dividends	344,000	374,000
Profits	202,000	270,000
	174,764,000	170,010,000
Net earnings before extraordinary charge: (per share: 1971 – $1.09; 1970 – $0.67)	10,915,000	6,974,000
Loss on sale of offshore contract drilling operations (per share - $0.18)	–	1,711,000
Net earnings (per share: 1971 – $1.09; 1970 – $0.49) (Notes 3, 8 and 9)	$ 10,915,000	$ 5,263,000

Consolidated Statement of Surplus

For the Year Ended December 31, 1971

	Other Paid in Capital		Retained Earnings	
	1971	1970	1971	1970
Balance at beginning of year (from January 1, 1963 for Retained Earnings)	$68,820,000	$68,815,000	$27,663,000	$24,925,000
Add				
Excess of consideration received over par value of common shares issued (Note 6)	87,000	5,000	–	–
Value of 300,000 stock purchase warrants attached to Series C debentures issued in 1971	1,575,000	–	–	–
Net earnings for the year	–	–	10,915,000	5,263,000
	70,482,000	68,820,000	38,578,000	30,188,000
Deduct				
Cash dividends on preferred shares			665,000	694,000
Cash dividends on common shares			1,412,000	1,412,000
Provision for redemption of preferred shares			420,000	419,000
			2,497,000	2,525,000
Balance at end of year	$70,482,000	$68,820,000	$36,081,000	$27,663,000

See accompanying notes.

Consolidated Balance Sheet December 31, 1971

ASSETS

	1971	1970 (Restated)
Current Assets		
Cash and short term deposits	$ 6,330,000	$ 7,433,000
Marketable securities – at cost which approximates market	49,000	49,000
Accounts and notes receivable	29,014,000	28,724,000
Inventories at lower of cost or replacement market	28,597,000	19,829,000
Equipment under construction – held for sale and leaseback (Note 7)	4,883,000	–
Prepaid expenses	400,000	331,000
Total current assets	69,273,000	56,366,000
Non-Current Assets		
Notes and contracts receivable, less amounts due within one year included in current assets above (including $2,286,000 in 1971 and $2,559,000 in 1970 receivable from directors and officers.) (Note 2)	4,627,000	6,883,000
Sundry investments and miscellaneous assets – at cost less amounts written off	2,740,000	2,906,000
Unrecovered costs – Santa Barbara project (Note 3)	7,207,000	7,207,000
Net investment – carrying value of Empire State Oil Co. assets (Note 1)	22,250,000	18,411,000
	36,824,000	35,407,000
Property, Plant and Equipment – at cost (Note 4)		
Oil and gas properties and equipment	164,720,000	146,707,000
Refining, manufacturing, marketing, transportation facilities and other assets (including land of $14,469,000)	128,285,000	128,349,000
	293,005,000	275,056,000
Less – accumulated depreciation	63,070,000	56,163,000
– accumulated depletion	28,136,000	26,460,000
	91,206,000	82,623,000
	201,799,000	192,433,000
Less unpaid production payments	8,142,000	9,576,000
	193,657,000	182,857,000
Other Assets – at cost less amounts written off		
Debt discount and expense	4,591,000	2,169,000
Trademarks	599,000	599,000
Other intangible assets	1,316,000	1,249,000
	6,506,000	4,017,000
	$306,260,000	$278,647,000

Approved on behalf of the Board:
Gene E. Roark, Director
Arnold Larsen, Director

LIABILITIES

	1971	1970 (Restated)
Current Liabilities		
Notes payable to banks	$ 16,277,000	$ 3,752,000
Accounts payable and accrued expenses	24,310,000	23,813,000
Dividends payable on preferred shares	46,000	47,000
Current portion of long term debt	12,641,000	12,004,000
Total current liabilities	53,274,000	39,616,000
Deferred Credits	4,873,000	2,816,000
Long Term Debt (Note 5)	111,144,000	109,052,000
Capital and Surplus		
Minority shareholders of consolidated subsidiary companies		
Preferred shares (Note 6)	5,090,000	5,575,000
Common shares	2,000	2,000
Surplus	1,285,000	1,082,000
Total minority interest	6,377,000	6,659,000
Shareholders of Parent Company (Note 6)		
Cumulative, redeemable, preferred shares par value $50 each; Authorized 1,000,000 shares; issued 236,513 shares; 1970 – 244,430 shares	11,826,000	12,221,000
Common shares, par value $1 each; Authorized 15,000,000 shares; issued 9,420,912 shares; 1970 – 9,411,914 shares	9,421,000	9,412,000
Undistributable capital surplus arising from purchase and redemption of preferred shares	2,782,000	2,388,000
Other paid in capital	70,482,000	68,820,000
Retained earnings	36,081,000	27,663,000
Total capital and surplus of parent company shareholders	130,592,000	120,504,000
Total capital and surplus, including minority interest	136,969,000	127,163,000
Commitments and Contingencies (Note 7)		
	$306,260,000	$278,647,000

See accompanying notes.

Consolidated Statement of Source & Use of Funds

For the Year Ended December 31, 1971

	1971	1970 (Restated)
Funds were obtained from		
Net earnings	$ 10,915,000	$ 5,263,000
Add non-cash items - net	18,367,000	18,025,000
Net cash income from operations	29,282,000	23,288,000
Increase in long term debt - net of retirements of $33,704,000 in 1971 and $24,144,000 in 1970	3,890,000	7,587,000
Issue of common shares	95,000	6,000
Sale of assets	3,233,000	21,333,000
Sale of investments	30,000	30,000
Decrease in non-current notes receivable	2,256,000	295,000
	38,786,000	52,539,000
Funds were used for		
Additions to property, plant and equipment	29,572,000	40,172,000
Acquisitions of interest in subsidiaries	5,084,000	7,037,000
Retirement of preferred shares	934,000	877,000
Dividends on shares of parent company		
Preferred	665,000	694,000
Common	1,412,000	1,412,000
Dividends to minority shareholders	344,000	374,000
Other	1,526,000	611,000
	39,537,000	51,177,000
Increase (decrease) in working capital	$ (751,000)	$ 1,362,000

See accompanying notes.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Husky Oil Ltd. and subsidiaries as of December 31, 1971, and the consolidated statements of earnings, surplus and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to any adjustment which may result from the ultimate outcome of the litigation described in Note 3 to the consolidated financial statements, these financial statements present fairly the financial position of the company and subsidiaries at December 31, 1971, and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a consistent basis as restated (Note 1), with that of the preceding year.

Peat, Marwick, Mitchell & Co.
Chartered Accountants

Calgary, Alberta
February 21, 1972.

Notes to Consolidated Financial Statements

(1) The consolidated financial statements include the accounts of all subsidiary companies with the exception of those of Empire State Oil Company, a subsidiary, which was consolidated in 1970 from April 1. On January 3, 1972, the 1,073,782 common shares (55%) of that company owned by subsidiaries were sold for $24 (U.S.) per share, aggregating $25,771,000 in cash.

In view of this sale, the consolidated financial statements set forth the carrying value of Empire State Oil Company assets and the Company's equity in Empire's earnings under separate captions. Comparative 1970 figures have been restated to conform to this method of presentation. The carrying value of Empire State Oil Company assets, to the extent represented by Empire's oil and gas reserves, has been computed on the basis of the ratio of Empire's proved reserves to total consolidated proved reserves applied to the carrying value of the consolidated proved reserves.

The extraordinary credit from the sale in 1972 amounts to approximately $3,200,000 net of estimated income taxes of $300,000. The equity in earnings of this subsidiary in 1971 amounted to $1,494,000 ($0.16 per share). Debt of $25,500,000 was retired from the proceeds of this sale. The average annual interest on this debt during 1971 amounted to approximately $1,800,000.

The accounts of United States subsidiaries are included at $1 U.S. = $1 Canadian.

(2) The long term notes receivable from present and former officers and directors totalling $2,286,000 mature from 1977 to 1979 and are secured as to $1,246,000 by 100,000 shares of common stock of the Company and as to $1,040,000 by 20,800 Series W, X, Y and Z convertible preferred shares of the Company. One note in the amount of $1,246,000 is non-interest bearing.

(3) Unrecovered costs – Santa Barbara project represents the unamortized cost of oil and gas leases off the coast of California acquired in 1968. In February, 1969, the Secretary of the Interior of the United States of America amended the regulations relating to drilling for oil and gas on the outer continental shelf and imposed an unlimited liability, regardless of fault, for damage caused by oil escaping. The Secretary also suspended drilling on these leases. These actions made it economically and practically impossible to continue further exploration. As a result, exploratory operations on the leases were discontinued and several companies including Husky Oil Company of Delaware filed suit against the United States of America requesting repayment of acquisition and exploratory costs incurred or compensation for the value of the leases. The trial has been held and a decision is pending. In the opinion of counsel for the companies, it is impossible to predict the outcome of this litigation at this time. It is contemplated that any costs which are not recovered by the suit will be added to depletable costs. Had total costs been taken into depletable costs in 1971, the provision for depletion for 1971 would have been increased by $767,000 and earnings decreased by a similar amount, equal to $0.08 per share.

(4) The companies employ the "full cost" method of accounting whereby costs and expenses of exploring for and developing oil and gas reserves in North America are capitalized and are depleted on composite unit-of-production methods based on proved developed oil and gas reserves as estimated by independent or employee engineers. Costs and expenses of acquiring oil and gas interests outside of North America have been capitalized pending the outcome of exploration in each country or area. The costs capitalized at December 31, 1971 amounted to $429,000. It is expected that such costs will be depleted by the method set forth above if sufficient reserves are developed. Costs of unsuccessful wells will be charged to earnings.

Commencing in 1970, the Company and a subsidiary engaged in certain exploration and development ventures as general partners of a partnership with a drilling fund, Husky Exploration, Ltd., a limited partnership. Limited partnership units aggregating $30,370,000 (of which approximately $9,000,000 were cancelled by December 31, 1971) were subscribed by the general public. At December 31, 1971, $15,418,000 had been received and a maximum

of approximately $5,952,000 remains to be collected. The Companies' share of partnership costs for exploration and development ranging from 16% to 22% is included in oil and gas properties.

(5) Long term debt at December 31, 1971 consisted of:

	Husky Oil Ltd. and Canadian Subsidiaries (Cdn. $)	Husky Oil Company of Delaware and Subsidiaries (U.S. $)
Sinking fund debentures		
6% Series A, 1984	$ 14,480,000	
6¾% Series B, 1987	18,750,000	
8½% Series C, 1991	15,000,000	
Term bank loans		
9½% annually to 1973 (U.S. $3,000,000)	3,090,000	
7% annually to 1973		$ 4,000,000
6¼% monthly to 1975		4,810,000
7½% monthly to 1975		5,500,000
6¼% annually to 1975		4,000,000
9¾% due 1976		5,000,000
6% annually to 1976		5,000,000
Secured notes and debentures		
5¾% to 8½%, 1972 to 1984		19,564,000
6¾% Serial First Mortgage Bonds, 1978		3,165,000
Other secured notes and contracts	213,000	2,650,000
Unsecured notes and contracts		12,475,000
Long term lease obligations		6,088,000
	51,533,000	72,252,000
Less amounts due in one year	1,119,000	11,522,000
	50,414,000	60,730,000
U.S. Subsidiaries	60,730,000	
	$111,144,000	

Included in long term debt are debt instruments aggregating $28,599,000 with fluctuating interest rates ranging from ¼% to 1½% above bank prime rates.

Interest on long term debt in 1971 was $9,968,000. Certain properties and other assets having an aggregate cost of approximately $162,000,000 are specifically mortgaged or pledged as collateral for production loans and other secured obligations.

The aggregate maturities of long term debt in each of the five years subsequent to December 31, 1971 after giving effect to the redemption of long term debt arising from the proceeds of the transactions described in note (11) are as follows: 1972 – $8,316,000, 1973 – $11,329,000, 1974 – $7,722,000, 1975 – $7,016,000, 1976 – $3,810,000.

(6) During 1971 8,998 common shares were issued for cash of $95,000.

As at December 31, preferred shares were issued and outstanding as follows:

	1971	1970
Series A – 6%	56,663	58,763
Series B – 6%	159,050	164,867
Series W, X, Y and Z – convertible – 4%	20,800	20,800
	236,513	244,430

The Series A and B preferred shares require annual sinking funds to redeem 2,100 Series A shares at $53.50 per share and 5,850 Series B shares at $52.50 per share.

On February 12, 1972, the Board of Directors of Husky Oil Company of Delaware authorized the redemption for cash on April 1, 1972 of all of the 50,265 outstanding shares of its First Preferred Stock at par value of $100 per share.

Common shares have been reserved for issue as follows:

297,160 shares for Series D stock purchase warrants at exercise prices escalating from $14.50 to $16.50 per share, expiring June 30, 1974.

300,000 shares for Series E stock purchase warrants at exercise prices escalating from $18.00 to $21.00 per share expiring August 15, 1981.

61,840 shares under a share option plan for officers and employees at prices ranging from $6.77 to $12.94 per share during the years 1972 to 1975. In 1971 options were exercised as to 8,950 shares at prices ranging from $5.00 to $12.94 per share.

50,000 shares for conversion of the Series W, X, Y and Z convertible preferred shares at $20 per share as to 40,000 shares and $24 per share as to 10,000 shares.

In addition, 1,250,000 common shares were reserved for issue as at January 15, 1972 in connection with the issue of 6¼% convertible subordinated debentures due 1997 (see Note 11).

(7) The Company and its subsidiaries have outstanding commitments or contingencies as follows:

(a) Long term lease agreements with fixed annual rentals aggregating $2,748,000 including $1,176,000 for royalty free oil and gas rights in the Lloydminster area.

(b) The guarantee of indebtedness of a pipeline company to a maximum of $1,500,000.

(c) The Company remains contingently liable as guarantor for the payment of foreign bank loans aggregating approximately $10,300,000 maturing as to $4,700,000 in April, 1972; as to $1,700,000 in May, 1972 and as to $3,900,000 in November, 1972, which were assumed as to payment by the purchaser of the offshore contract drilling operations in 1970.

Husky Oil Company of Delaware is a defendant in two lawsuits alleging anti-trust damages of an undetermined amount relating to sales of asphalt. These claims are in the preliminary stages of proceedings and it is not possible for counsel to ascertain the substance, if any, of the plaintiffs' claims. There are several other lawsuits in the ordinary course of business which, in the opinion of counsel, are without substantial merit, are covered by insurance or involve inconsequential amounts. In the opinion of management, the foregoing litigation will have no material adverse effect on the financial position of the companies.

Husky Oil Company of Delaware has entered into contracts for the modernization and modification of the Cheyenne refinery at a cost of approximately $10,000,000 ($5,100,000 incurred at December 31, 1971). The construction is scheduled for completion early in the last quarter of 1972 and approximately $8,000,000 of the cost will be financed via the sale and leaseback of the new units over a 14 year term at a quarterly rental of 3.216% of cost. The remaining cost of approximately $2,000,000 will be provided out of the general funds of the companies.

(8) For income tax purposes, the Company is entitled to claim drilling, exploration and lease acquisition costs and tax depreciation in amounts which may exceed the related depletion and depreciation provisions reflected in its accounts. For 1971, the Company will claim deductions in an amount sufficient to eliminate taxable income other than minimum income taxes payable under provisions of the U.S. Tax Reform Act of 1969.

If the tax allocation basis had been followed for all timing differences between taxable income and reported income, provisions for deferred income taxes of $2,033,000 ($456,000 in 1970) would have been required and the cumulative amount at December 31, 1971 would have been approximately $16,800,000.

At December 31, 1971 expenditures remain to be carried forward and applied against taxable income as follows:

Drilling, exploration and undeveloped lease acquisition costs	$ 21,000,000
Remaining tax depreciation	$101,000,000

(9) Earnings per common share for 1971 and 1970 are based on the weighted average of shares outstanding during the year. No material dilution of earnings per share would result if all outstanding options, warrants or conversion privileges were exercised.

(10) Aggregate direct remuneration paid or payable in 1971 by the Company and its subsidiaries to the Company's directors and officers amounted to $67,000 and $693,000 respectively. During the year, there were a total of 14 directors and 13 officers, 5 of whom served in both capacities.

(11) On January 3, 1972 Husky Oil Company of Delaware and its subsidiary sold their shares of Empire State Oil Company (see Note 1).

As of January 15, 1972 Husky Oil Company of Delaware sold $25,000,000 of 6¼% convertible subordinated debentures due 1997, which are convertible into common stock of Husky Oil Ltd. at $20 per share until 1997. Net proceeds after discount and expenses of issue were approximately $24,100,000 (see Note 6).

The net proceeds of these two transactions in the amount of $49,900,000 were applied as follows: $31,300,000 to retirement of long term debt, $13,500,000 to retirement of short term notes payable to banks and the balance of $5,100,000 was added to working capital.

On February 12, 1972 Husky Oil Company of Delaware authorized the redemption of its First Preferred stock (see Note 6).

Financial and Operating Summary

FINANCIAL (thousands of dollars)	1971	1970*	1969	1968	1967	1966	1965	1964	1963	1962
Gross operating revenues	$184,185	$176,226	$163,493	$153,663	$90,197	$66,943	$53,237	$50,524	$45,979	$40,708
Equity in earnings of Empire State Oil Company	1,494	758	—	—	—	—	—	—	—	—
	185,679	176,984	163,493	153,663	90,197	66,943	53,237	50,524	45,979	40,708
Costs and operating, selling and general expenses	146,683	143,770	131,674	123,110	67,401	47,463	37,544	38,416	36,881	32,964
Interest (net of interest income)	9,887	9,261	8,264	6,981	4,486	3,068	2,101	1,479	1,432	1,348
Miscellaneous—net	(663)	702	(558)	(262)	(55)	(100)	320	201	(207)	(100)
Provision for U.S. income taxes	72	143	—	—	—	—	—	—	—	—
Depreciation, depletion and amortization	18,239	15,490	15,493	14,758	10,148	9,319	7,318	6,100	5,071	4,305
Exploration costs and overhead	—	—	—	—	—	—	—	—	—	1,696
Minority interests in earnings of subsidiaries	546	644	755	780	617	680	852	809	569	396
	174,764	170,010	155,628	145,367	82,597	60,430	48,135	47,005	43,746	40,609
Net earnings before extraordinary items	10,915	6,974	7,865	8,296	7,600	6,513	5,102	3,519	2,233	99
Special (charge) credit	—	(1,711)	—	2,123	708	—	—	—	—	—
Net earnings	$ 10,915	$ 5,263	$ 7,865	$ 10,419	$ 8,308	$ 6,513	$ 5,102	$ 3,519	$ 2,233	$ 99
Working capital	15,999	16,750	15,388	22,901	15,072	18,783	12,094	19,404	12,578	11,069
Long term debt (including deferred credits)	116,017	111,868	104,337	94,669	74,125	52,287	43,830	47,905	36,761	26,136
Preferred shares outstanding at par value	11,826	12,221	12,620	12,392	27,376	27,770	13,171	13,568	3,568	3,568
Preferred share dividends	665	694	716	740	1,616	1,331	807	514	214	214
Number of common shares outstanding (in thousands) (average from 1968)	9,416	9,411	9,405	8,723	6,644	6,431	6,244	6,208	6,169	6,123
Earnings (loss) per common share after preferred dividends										
From operations	$ 1.09	$ 0.67	$ 0.76	$ 0.87	$ 0.90	$ 0.81	$ 0.69	$ 0.48	$ 0.33	$ (0.01)
Special (charge) credit	—	(0.18)	—	0.24	0.11	—	—	—	—	—
Total	$ 1.09	$ 0.49	$ 0.76	$ 1.11	$ 1.01	$ 0.81	$ 0.69	$ 0.48	$ 0.33	$ (0.01)

OPERATING	1971	1970*	1969	1968	1967	1966	1965	1964	1963	1962
Production—Daily Average										
Net crude oil and equivalent gas production—barrels	42,874	36,971	35,134	34,299	29,648	25,532	20,181	16,765	12,920	11,088
Crude oil and gas liquids production—barrels	38,345	33,265	31,663	30,742	26,197	22,178	17,463	14,312	10,796	9,163
Natural gas production—MCF	67,271	49,293	46,236	47,571	45,828	44,518	35,173	32,000	27,998	25,521
Refining and Marketing—Daily Average Barrels										
Crude oil processed	50,185	50,044	47,893	45,802	20,248	18,387	16,929	15,789	17,263	17,231
Refined product sales	53,285	56,961	52,730	48,662	21,750	19,323	18,295	18,343	19,302	17,293

*1970 figures have been restated to reflect the deconsolidation of the accounts of Empire State Oil Company as explained in Note 1 of the Notes to Consolidated Financial Statements.

Officers and Board of Directors

Officers

GLENN E. NIELSON
Chairman of the Board

GENE E. ROARK
President
Chief Executive Officer

ARNOLD LARSEN
Executive Vice President

J. E. NIELSON
Executive Vice President

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Vice President

M. D. ENSIGN
Vice President

D. R. HAGERMAN
Vice President
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Vice President

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Vice President

J. L. OLVEY
Vice President

J. V. SHEFFIELD
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Vice President

D. H. FLORA
Secretary

L. E. SAUNDERS
Controller

S. L. CATE
President
Gate City Steel Corporation

Directors

GLENN E. NIELSON
Cody, Wyoming
Chairman of the Board
Husky Oil Ltd.

GENE E. ROARK
Denver, Colorado
President & Chief Executive Officer
Husky Oil Ltd.

J. WADDY BULLION
Dallas, Texas
Partner, Law firm of Thompson, Knight, Simmons and Bullion

GEORGE S. ECCLES
Salt Lake City, Utah
President and a Director of First Security Corporation and First Security Bank of Utah

J. W. GLANVILLE
New York, New York
A Managing Director of Lehman Brothers Incorporated

PAUL L. KARTZKE
Rancho Santa Fe, California
Petroleum Consultant

ARNOLD LARSEN
Calgary, Alberta
Executive Vice President
Husky Oil Ltd.

J. K. McCAUSLAND
Willowdale, Ontario
Retired Investment Dealer

F. R. MATTHEWS, Q.C.
Calgary, Alberta
Partner, Law firm of MacKimmie Matthews

H. H. MILLAR
Edmonton, Alberta
President and a Director of Western Construction and Lumber Co. Ltd.

J. E. NIELSON
Denver, Colorado
Executive Vice President
Husky Oil Ltd.

P. R. PAYN
Baltimore, Ontario
Retired Investment Dealer

WARD C. PITFIELD
Toronto, Ontario
President and a Director of Pitfield, Mackay, Ross & Company Limited

1971 ANNUAL REPORT

PRINTED IN CANADA

AR28

REPORT TO INVESTORS

MIDLAND·OSLER SECURITIES LIMITED

PROGRESS REPORT

HUSKY OIL LTD. ($17 3/4)

	1971	1972 (E)	1973 (E)
Earnings	$1.09	$1.25	$1.40 - $1.45
Cash Flow	$3.04	$3.50	$3.90 - $4.00

RECOMMENDATION

The shares at their current level should be purchased by investors seeking good growth potential and excellent exploratory exposure in the intriguing North Sea play. Based on projected 1973 cash flow, the shares at a four times multiple are allowing little or nothing for the company's large holdings in the world's hottest oil play at the present time. Secondly, the average cash flow multiple has rarely been this low in recent years. Of the 37 Canadian companies with interests in the North Sea, Husky has an interest in more acreage blocks than any other Canadian company. In this high risk, costly play, the more acreage blocks a company has, the greater the chances of a major discovery.

December 22, 1972

In addition to offering the greatest block ownership exposure of the Canadian companies in the North Sea, Husky shares offer it at the most reasonable price.

FINANCIAL

Earnings in the first nine months of the current year increased 15% to $1.01 a share and cash flow advanced 17% to $2.65 a share compared with the similar period in 1971. We anticipate that full year earnings and cash flow will increase by about 15% to $1.25 and $3.50 a share respectively from $1.09 and $3.04 a share in 1971.

At present, it appears that 1973 earnings and cash flow could increase by a further 12% to 15% to about $1.04 - $1.45 a share and $3.90 - $4.00 a share. As in 1972, the gains in 1973 are expected to come from higher production of oil and gas, improvements in refining and marketing and increases in asphalt sales.

Because of the company's high cash generation and the proceeds from the sale of Empire State shares, Husky is in a good financial position. Long term debt in the first nine months of 1972 was reduced by $15 million to about $108 million. Debt service requirements in the next three years will be approximately $9 million in 1973, $8 million in 1974 and $7.5 million in 1975. In view of the $37 million plus that will be generated in cash flow in 1973, it is apparent that the company is in a position to pursue an aggressive role in corporate expansion and in the field of exploration. It is the intention of management to place increasingly strong emphasis on exploration and development on a global scale.

PRODUCTION & REFINING

Production of crude oil and gas equivalent in the first nine months of 1972 was up 8% to 45,600 b/d. This compares with a 16% increase to 42,874 b/d for the first nine months of 1971. The drop in the production increase this year was due to declining production rates at the Highlight Field in Wyoming. A new waterflood program is being introduced at Highlight to stimulate these wells and boost production.

The company is making good progress with its fireflood techniques at Lloydminster. At present, only about 8 1/3% of the oil in place is recoverable. If the fireflood technique is successful and economically viable, recovery of the company's reserves at Lloydminster could increase to about 33 1/3% as indicated in tests so far. This would mean that the company's heavy crude reserves at Lloydminster would be increased from about 60 million barrels of recoverable oil to about 248 million barrels. If this increase in crude oil reserves had a net discounted value of 50 cents per barrel, it would add close to $10 a share to the intrinsic value of the stock. At present, the economics of the fireflood technique are not accurately known but it appears that heavy crude oil prices would have to be at least about $4.00 per barrel to realize a good rate of return. At present,

Lloydminster crude has a wellhead price of about $2.30 a barrel. There are a great many knowledgeable sources in the oil industry at the present time who believe that by 1975 the average wellhead price for crude oil in North America will be in the $4 to $5 per barrel range in the light of the growing energy crisis. Again, assuming an average cash margin of $1.00 per barrel and a production increase of 21,000 barrels per day at Lloydminster, the company's annual cash flow could be increased by about 80 cents a share. These numbers, however, should be viewed with caution since they are only possibilities. There are three major unknowns at present: (1) crude oil prices, (2) the exact cost of fireflood, and (3) the all-important question that once a reservoir has been stimulated by this technique, whether or not it will continue to produce at high levels over a prolonged period or whether production will begin to decline within a few years.

Modernization of the company's refinery at Cheyenne, Wyoming is almost complete. The $11 million program has given Husky a competitive edge in the inter-mountain area in the production of lead-free gasolines. This will be especially true if the U.S. government introduces legislation with regard to low-lead gasolines. The company intends to modernize its 11,000 b/d refinery at Cody, Wyoming in 1973. This program will require an expenditure of about $1 million. There are also tentative plans to streamline the company's Salt Lake City refinery in the next two to three years.

A price improvement of 1 cent per gallon in gasoline prices in Husky's marketing areas in the U.S. would boost cash flow by about $4 million per year.

Two factors could bring about a price increase in the not too distant future. One is U.S. government legislation requiring low-lead gasolines and the premium price Husky's low-lead gasolines could command. The second factor is that a gasoline shortage has developed in the Rocky Mountain states which, if continued, could force gasoline prices up.

In marketing, the company is continuing to concentrate on the development of its large and highly profitable car-truck stops. About $6 million has been allocated to this program for 1973.

EXPLORATION

The company and its partners in the Sea Search Group have recently been awarded two blocks (D-6 and D-12) in the Dutch sector of the North Sea. Earlier this fall, Husky and its Sea Search partners were awarded eight blocks in the German sector. The company has a 15% interest in the two Dutch awards and six of the German blocks along with a 12½% interest in two of the German blocks.

Husky now has an interest in twenty blocks in the North Sea area in the U.K., Dutch and German sectors. Of all the Canadian companies with acreage interests in the North Sea, Husky Oil has an interest in more blocks than any other Canadian company. The company's North Sea acreage holdings are currently as follows:

<u>U.K. SECTOR:</u> Block No's. 15/8 (10%), 16/26 (10%), 28/5 (10%), 29/25 (10%), 21/14 (2½%), 21/7 (5%), 48/12 (5%), 48/13b (5%), 210/1 (5%), 210/2 (5%).

<u>GERMAN SECTOR:</u> J/3 (15%), J/4 (15%), J/8 (15%), J/11 (15%), J/14 (15%), J/17 (15%), H/9 (12½%), H/12 (12½%).

<u>DUTCH SECTOR:</u> D-6 (15%), D-12 (15%).

<u>NOTE:</u> (15%) denotes Husky's net interest in a particular block.

Although drilling plans have not been finalized the company may participate in drilling up to four wells in 1973 on its various North Sea holdings. A seismic survey has just been completed on the company's German holdings. Results have been very encouraging and plans are underway to drill one of these blocks in the next six months using a jack-up type rig. The first well on acreage in which the company has a 2½% interest is expected to spud on block 21/14 in the U.K. sector in the latter part of December or early January, 1973. Block 21/14 is believed to be an extension of some of the hydrocarbon bearing zones at BP's Forties Field. Whether or not hydrocarbon is present or is as prolific as Forties will remain a mystery until BP's semi-submersible "Sea Quest" drills into the target zones. "Sea Quest" is currently testing a hydrocarbon showing a few miles to the northwest of block 21/14. Husky's 2½% interest in 21/14 would have a discounted net worth of $25 million or $2.65 a share if one billion barrels of recoverable oil were discovered at a discounted price of $1.00 per barrel. A similar sized discovery on one of its German blocks would have a net discounted value of $150 million or $15.90 a share. Since none of the company's 20 blocks have been drilled, the investor at the moment theoretically has 20 opportunities to be involved in a major discovery. No other Canadian, and very few non-Canadian companies, can outstrip this kind of exploratory potential at present. It would be totally unrealistic to believe that all of these blocks could be commercially productive. However, only one large discovery from the total number could be more than amply rewarding. Statistically, a company with an interest in twenty geologically attractive blocks has more opportunity for a major discovery than a company with ten.

In addition to these holdings, it is the intention of Husky and its Sea Search partners to acquire acreage in the Norwegian part of the North Sea. It appears that the new Norwegian government will begin accepting acreage bids in January, 1973 and make the awards in time for next summer's exploration season.

Over the next few years, the company plans to place the major emphasis in its exploratory programs in the North Sea area where the discoveries are large and the return on investment can begin within two years after discovery rather than eight to ten years in the Arctic regions. The company, along with Trans Ocean and the Sea Search Group, will have their own semi-submersible rig operating in the North Sea in the latter part of next year.

Husky, in conjunction with another group, is looking at favourable locations off the coast of Portugal where a basin somewhat similar to the North Sea basin is known to exist.

On Canada's east coast, the company's 532,000 net acres probably won't be drilled until 1974 because of the scarcity of rigs. The seismic program has been completed and an area believed to be favourable for the accumulation of hydrocarbon outlined.

Another area where the company plans to place strong emphasis is in the Gulf of Mexico and in particular, offshore Texas. The company is currently involved in two offshore wells with Trans Ocean Inc. near Galveston, Texas.

The Chaplin Mountain area in the Green River Basin of Wyoming could be turning in the hottest oil play in years in this part of the U.S. Husky has close to 200,000 acres within 30 miles of a large discovery well.

Husky's total exploration budget in 1973 will be about $9 million. Of this total, about $2 million is slated for Lloydminster, $1.5 million tentatively for North Sea commitments and the balance for Portugal, Texas, Wyoming, etc.

Since it is the intention of the company to place increasingly strong emphasis on exploration, this budget can be expected to increase sharply over the next few years.

The recent reorganization of the company's exploration department can be taken as indicative of the importance management now places on this sector of operations. The department has been organized into groups with each team responsible for various sectors of operations on a worldwide scale. The company intends to go international in the truest sense of the word. It is fair to say that in the next few years, Husky could be involved in exploratory activities anywhere in the world where conditions appear favourable.

December 22, 1972 Eric W.M. Rankin

HUSKY OIL
Ltd.

Quarterly Report
To Shareholders

Six Months Ended

June 30, 1971

815 Sixth Street S.W. Calgary 2, Alberta

HUSKY

TO THE SHAREHOLDERS:

Husky's record net earnings from operations of $3,747,000 in the first six months of 1971 increased $2,106,000 from the same period in 1970. These earnings were equivalent of 36 cents per common share, and were two and a half times the 14 cents from operations before an extraordinary charge in the first half year of 1970.

Record sales and operating revenues to June 30 this year were up seven per cent to $89,496,000, increasing $5,519,000 over the similar 1970 period.

The profit and sales increases were due largely to higher production volumes and prices for crude oil, lower interest rates compared to 1970, and the six-month inclusion of Empire State results in comparison to the three-month consolidation last year.

The company's production of crude oil and equivalent gas increased 24 per cent in the first six months of 1971, averaging 51,400 barrels per day compared with 41,500 barrels daily last year. Production from the Lloydminster area on the Alberta-Saskatchewan boundary amounted to 16,000 barrels per day in 1971 compared with 13,200 barrels per day in 1970. Throughput in the Lloydminster pipeline system increased to 37,500 barrels per day this year from 34,600 barrels per day last year.

Refinery throughput increased seven per cent over 1970 to an average of nearly 50,000 barrels daily, and product manufactured averaged close to 47,000 barrels a day. Refined product sales of 46,000 barrels were substantially unchanged from the first six months of 1970. Asphalt sales were down because of poor weather delaying road construction. However, despite depressed light oil product prices in a number of the company's marketing areas, total cash operating income for the Refining

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FINANCIAL AND OP

For the Six Months

(with comparati

FINANCIAL

Sales and operating revenues . . .	
Deductions	
Cost of sales and operating expenses .	
Selling, general and administrative expenses	
Interest (net of interest income of $678,000 in 1971 and $479,000 in 197(	
Miscellaneous — net	
Provision for U.S. income taxes . .	
Depreciation and amortization . . .	
Depletion	
Minority interst in earnings of subsidiaries:	
Preferred share dividends . . .	
Profits	
Net earnings before extraordinary charge (per share: 1971 — $0.36; 1970 — $0.14)	
Loss on disposal of offshore contract drilling operations (per share $0.18) .	
Net earnings (loss) (per share: 1971 — $0.36; 1970 — ($0.04)	

OPERATING (Daily Averages)

Crude oil and equivalent gas production — bbls.	
Crude oil and gas liquids — bbls. .	
Natural gas — mcf	
Refining throughput — bbls. . . .	
Refined product sales — bbls. . . .	

Notes:

(1) Figures are unaudited and accounts of U.S. sub

(2) Quarterly reports in 1970 reflected only Husky's from April 1, 1970. Husky later acquired a direct of operating accounts for the calendar year 1970 to nancial statements for 1970 are now being restated from April 1. The production of crude oil and equiv Empire was 4,200 barrrels per day in 1971 and 3

(3) The restated results for 1970 also reflect the d effective May 31 although the sale was not closed

Y OIL

diaries

RATING SUMMARY

ded June 30, 1971

gures for 1970)

	1971	1970	Increase (Decrease) %
. .	$ 89,496,000	$ 83,977,000	7
. .	62,376,000	60,068,000	4
. .	8,289,000	7,913,000	5
. .	4,351,000	4,788,000	(9)
. .	(315,000)	39,000	—
. .	73,000	143,000	(49)
. .	4,937,000	5,036,000	(2)
. .	4,924,000	3,506,000	40
. .	178,000	199,000	(11)
. .	936,000	644,000	—
	85,749,000	82,336,000	4
. .	3,747,000	1,641,000	—
. .	—	1,711,000	—
. .	$ 3,747,000	$ (70,000)	—
. .	51,386	41,530	24
. .	46,613	37,402	25
. .	70,779	54,912	29
. .	49,991	46,815	7
. .	46,018	46,825	(2)

ies are included at $1 U.S. = $1 Canadian.

profit interest in Curtis Inc. and Empire State Oil Co. interest in Empire resulting in a full consolidation form to accepted accounting practices. Quarterly fi- reflect this full consolidation of the Empire operations natural gas attributable to the minority interest in barrels per day in 1970.

l of contract drilling operations which were sold July 31.

and Marketing Department was about the same in 1971 as in the first six-month period of 1970.

In July, Husky offered to the public in Canada $15-million in 20-year, 8½ per cent sinking fund debentures with 20 stock purchase warrants attached to each $1,000 debenture. Each warrant allows the purchase of a Husky common share at $18 for five years and at $21 for an additional five years. The proceeds of the debenture issue, to be received in mid-August, will be used to retire short term loans.

Gate City Steel Corporation, 87.8 per cent owned by Husky, reported earnings of $786,000 for the first six months of 1971, an increase of 10 per cent over the similiar period of 1970. Highly competitive market conditions continue throughout the steel industry, and a large inventory surplus results from accelerated purchases made in anticipation of a possible strike of steel producers.

Husky Briquetting, Inc., a wholly-owned Husky subsidiary, had a 24 per cent increase in sales and a 160 per cent increase in cash operating income in the first six months of this year compared with the same period last year. The increases resulted from improved net sales returns and from sales of a new instant-lighting charcoal briquet product sold under the trade name "Brix."

In common with the industry's general exploration situation which has seen no major successes reported in the past year for conventional oil and gas exploration areas in Canada and the United States, Husky made no significant oil or gas discoveries in the first half of 1971. Plans are being completed to participate with other companies in deep tests in Wyoming's Green River Basin on the west flank of the Rock Springs uplift, where Husky has 180,000 acres net, and at Meridian Ridge. Husky is continuing a very active program of exploration and has a much broader exposure than last year. Some interesting plays have

been taken in overseas areas where governmental and geological conditions are promising.

The U.S. Federal Power Commission has approved ceiling rates of from 22½ to 24 cents per thousand cubic feet of natural gas in areas of the northern Rocky Mountains, and this will encourage exploration in areas where Husky has substantial acreage.

The seasonal nature of some Husky operations normally result in higher earnings in the second half of a year, and management anticipates a record year in 1971 for earnings. Contributing factors in the expected overall improved results this year, in addition to those commented on for the six-month period, include expanded asphalt shipments in the summer road construction period, continuation of the improvement in asphalt prices, and improved volumes of gasoline sales in the mid-year highway travel season.

Sincerely,

Gene E. Roark, President

August 13, 1971

AR28

HUSKY OIL
Ltd.
and Subsidiaries

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

For the Six Months Ended June 30, 1971
(with comparative figures for 1970)

	1971	1970
Funds were obtained from:		
Net earnings (loss) after extraordinary charge	$ 3,747,000	$ (70,000)
Add non-cash items — net	11,003,000	11,276,000
Net cash income from operations	14,750,000	11,206,000
Increase in long term debt — net of retirements of $9,842,000 in 1971 and $19,512,000 in 1970	10,712,000	6,941,000
Issue of common shares	50,000	—
Sale of assets	1,650,000	19,882,000
Decrease in non-current notes receivable	700,000	104,000
Minority interest arising on consolidation of Curtis, Inc.	—	17,734,000
Investment on January 1, 1970 in Curtis, Inc. eliminated on consolidation	—	5,094,000
	27,862,000	60,961,000
Funds were used for:		
Additions to property, plant and equipment		
Departmental growth expenditures	19,158,000	17,037,000
Consolidation of Curtis, Inc. on April 1, 1970	—	18,327,000
	19,158,000	35,364,000
Reduction of minority interest in a subsidiary company	4,821,000	500,000
Retirement of preferred shares	870,000	790,000
Dividends on shares of parent company		
Preferred	335,000	351,000
Common	706,000	706,000
Dividends to minority shareholders	396,000	414,000
Other	(29,000)	522,000
	26,257,000	38,647,000
Increase in working capital	$ 1,605,000	$22,314,000

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